

ADIN-6

DD/S&T 0257-64

23 January 1964

MEMORANDUM FOR THE RECORD

SUBJECT: Incentive Contracting

1. A meeting was held in Room 3E-13 Headquarters Building on 16 January 1964 in connection with the presentation by [REDACTED] Chief, Procurement Division/OL to representatives of the various offices in DD/S&T. The following were present:

- Executive Officer, DD/S&T
- OEL
- OSA
- OCS
- OSI
- FMSAC
- OL/PD
- DD/S&T

2. [REDACTED] opened the meeting with a discussion on its purpose and present situation with respect to the understanding which now exists between the Office of DD/S&T and the Procurement Division of OL; the Logistics Handbook on the basis of which the Memorandum of Understanding was issued; and the proposed directive for issuance by the DCI implementing incentive contracting procedures.

3. [REDACTED] then presented his discourse on incentive contracting bringing out the following points either for information or further discussion by the group:

A. The background of the drive for incentive contracting is based on Secretary McNamara's presentation to a Congressional committee relative to reforms now set up in the Department of Defense or the change of contract procedures that would stimulate considerable savings to the Government then heretofore realized for the fiscal year 1964. As the result of this presentation by Secretary McNamara and

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the motives driven therefrom, the ASPR was amended on 15 August 1963 to reflect the changes in the contracting procedures for purposes of negotiating on incentive basis.

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B. CIA has about [REDACTED] dollars in contracts exclusive of ODA contracts negotiated by [REDACTED]

C. Secretary McNamara urged more competitive bids on a fixed price basis which in turn would create a considerable savings to the Government. In this connection, it was pointed out that CIA has 11 per cent of competitive fixed price bids out of the entire total of contracts negotiated.

D. Twenty per cent of the Department of Defense research contracts are competitive to the extent of 1.2 billion dollars.

E. In CIA the average negotiated incentive contracts was .3 per cent.

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F. [REDACTED] pointed out some of the examples in connection with incentive contracts, and the responsibility involved thereunder:

(a) Cost - It should be the prerogative of OL/PD to determine the actual cost to be negotiated.

(b) Performance - The technical project monitor would control establishing minimum and maximum levels. In connection with good or bad performance, the award or penalty with respect thereto should be a joint determination reflected and negotiated in the contract.

(c) Delivery - The technical monitor establishes the deadlines, but OL/PD assists in determination of bonus and penalty.

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G. [REDACTED] pointed out certain objectives of the Procurement Division, namely:

(a) Competition among bidders

(b) Use incentives

(c) Get proposals in writing

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H. Categories of contracts. As a result of discussing the various categories in connection with our offices involved, relating to incentive contracting, it was determined that whenever we had contracts of personal services, external analysis, and fundamental research, incentive contracting did not come into play and "no sweat" was involved. However, the developmental type of contract is used to build a prototype, or to build a piece of equipment. In this connection preproposal discussions and solicitations by project monitors are okay under this system, but the actual request to contractors for bids will be forwarded to the Office of Logistics, Procurement Division and in turn the bids will be received by them. At this point, [REDACTED] made it clear that standardized items which are needed by the Agency do not come under the category of competitive bidding since the prices have already been established for the items concerned.

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I. The Procurement Evaluation Committee and its functions were discussed and how it related to the procurement activities. Logistics reserves the right to determine whether a contractor should go cost plus fixed fee or cost plus incentive fee. However, a feasibility study could proceed prior to the letting of a cost plus incentive fee contract for production run. [REDACTED] indicated that while incentives types of contracts may cost more money insofar as company profits are concerned, this particular type of contract would hold down expensive overruns thereby reducing actual cost to the Government.

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J. A question was raised at this time as to the length of time involved in negotiating incentive types of contracts and whether additional time would be required by Logistics to negotiate such contracts. The answer given by [REDACTED] was that the negotiating of these types of contracts would be lengthy since incentive clauses have to be negotiated with all possible competitors.

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[REDACTED]  
Senior Logistics Officer  
LD/S&T